

Message Text

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ACTION NEA-12

INFO OCT-01 AF-10 ARA-16 EUR-25 EA-11 ISO-00 SCEM-02 INT-08

PA-03 PRS-01 USIA-15 AID-20 EB-11 NSC-10 RSC-01

CIEP-02 TRSE-00 SS-15 STR-08 OMB-01 CEA-02 COME-00

DRC-01 L-03 H-03 /181 W

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R 100910Z SEP 73

FM AMEMBASSY BEIRUT

TO SECSTATE WASHDC 4143

INFO AMEMBASSY ABU DHABI

AMEMBASSY BONN

AMEMBASSY CARACAS

AMEMBASSY JAKARTA

AMEMBASSY JIDDA

AMEMBASSY KUWAIT

AMEMBASSY LAGOS

AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY PORT OF SPAIN

AMEMBASSY QUITO

AMEMBASSY TEHRAN

AMEMBASSY TOKYO

AMEMBASSY TRIPOLI

AMEMBASSY VIENNA

USMISSION EC BRUSSELS

USMISSION OECD PARIS

AMCONSUL DHAHRAN

USINT ALGIERS

USINT BAGHDAD

USINT CAIRO

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E.O. 11652: N/A

TAGS: ENRG OPEC XF SA

SUBJ: YAMANI PROPOSES EXTENSIVE REVISION OF TEHRAN AGREEMENT

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REF: BEIRUT 7694; 7767; 10615; JIDDA 3461 (NOTAL)

SUMMARY: TERMING THE 1971-75 TEHRAN CRUDE OIL PRICE AGREEMENT "EITHER DEAD OR DYING", SAUDI ARABIAN OIL MINISTER YAMANI TOLD MEES AGREEMENT MUST BE REVISED TO INCLUDE "SIZEABLE LUMP SUM INCREASE IN POSTED PRICES", A MECHANISM TO KEEP POSTINGS ABOVE REALIZED PRICES AND A MORE REALISTIC INFLATION CLAUSE. OPEC GOVERNMENTS HAVE RIGHT TO SET PRICES UNILATERALLY IF COMPANIES DO NOT COOPERATE, HE CLAIMED. YAMANI ALSO RESERVED SAUDI POSITION ON POSSIBLE REVISION OF ITS PARTICIPATION AGREEMENT AND REITERATED SAUDI BAN ON SALES OF PARTICIPATION CRUDE THROUGH MIDDLE-MEN OR TO SPECULATORS. END SUMMARY:

1. YAMANI STATEMENTS MADE IN EXCLUSIVE INTERVIEW WITH MIDDLE EAST ECONOMIC SURVEY (MEES) AND PUBLISHED IN SEPTEMBER 7 ISSUE. MEES SAID REVISION OF FIVE-YEAR TEHRAN AGREEMENT, WHICH SET PRICES FOR BULK OF MIDDLE EAST OIL THROUGH 1975, HAS BEEN SUBJECT OF HIGH-LEVEL CONSULTATIONS IN GULF RECENTLY AND HEADS AGENDA OF THIRTY-FIFTH EXTRAORDINARY OPEC CONFERENCE BEGINNING SEPTEMBER 15 IN VIENNA. OPEC WILL INVITE COMPANIES TO DISCUSS IMPLEMENTATION OF OPEC RESOLUTIONS IMMEDIATELY AFTER CONFERENCE, MEES SAID.

2. TO OPEN INTERVIEW, MEES ASKED YAMANI TO COMMENT ON SCOPE OF SEPTEMBER 15 OPEC DISCUSSIONS. TEXT HIS REPLY FOLLOWS:

"TEHRAN AGREEMENT IS EITHER DEAD OR DYING AND IN NEED OF EXTENSIVE REVISION. ONE HAS ONLY TO LOOK AT THE WAY MARKET PRICES HAVE OVERTAKEN POSTED PRICES TO REALIZE THIS. QUITE SOME TIME AGO, QATAR SUCCEEDED IN SELLING ITS 1973-75 PARTICIPATION CRUDE ENTITLEMENTS AT PRICES WELL ABOVE PREVAILING POSTINGS, AND SINCE THEN WE HAVE HAD DAILY REMINDERS OF HOW FAR POSTED PRICES ARE LAGGING BEHIND REPRESENTATIVE MARKET REALIZATIONS IN GULF AREA. WE IN SAUDI ARABIA WOULD HAVE WISHED TO STICK TO AND HONOR TEHRAN AGREEMENT, BUT THERE HAS BEEN A DRAMATIC CHANGE IN CIRCUMSTANCES, BROUGHT ABOUT BY FORCES BEYOND OUR CONTROL, NAMELY, FIERCE UPWARD PRESSURE ON PRICES AS A RESULT OF RISING DEMAND FOR CRUDE. THESE DEVELOPMENTS HAVE COMPELLED US TO RECONSIDER

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OUR POLICY VIS-A-VIS TEHRAN AGREEMENT WHICH WE NOW FEEL SHOULD BE AMENDED AS FOLLOWS:

"(1) THERE SHOULD BE A SIZEABLE LUMP SUM INCREASE IN POSTED PRICES IN ORDER TO ELEVATE THEM SUFFICIENTLY ABOVE MARKET REALIZATIONS TO PERMIT THEM TO RESUME THEIR FUNCTION AS REALISTIC TAX REFERENCE PRICES.

"(2) MECHANISM SHOULD BE DEvised WHICH WOULD SERVE TO MAINTAIN POSTED PRICES ABOVE REALIZED PRICES AT ALL TIMES.

"(3) THE ANNUAL INCREASE IN POSTED PRICES OF 2.5 PERCENT FOR INFLATION PLUS 5 CENTS/BBL PROVIDED FOR IN TEHRAN AGREEMENT SHOULD BE AMENDED TO REFLECT MORE REALISTICALLY CURRENT RATES OF WORLD-WIDE PRICE INFLATION".

3. MEES THEN ASKED WHAT HAPPENS IF COMPANIES FAIL TO RESPOND TO THESE DEMANDS. YAMANI REPLIED: "YOU WILL RECALL THAT OPEC DECLARATORY STATEMENT OF PETROLEUM POLICY IN MEMBER COUNTRIES OF JUNE 1973 GIVES GOVERNMENTS OF MEMBER COUNTRIES UNEQUIVOCAL RIGHT TO DETERMINE POSTED OR TAX-REFERENCE PRICES IN SUCH MANNER AS TO PREVENT ANY DETERIORATION IN THEIR RELATIONSHIP TO PRICES OF MANUFACTURED GOODS TRADED INTERNATIONALLY. IF WE FAIL TO OBTAIN THE COOPERATION OF THE OIL COMPANIES IN AMENDING THE TEHRAN PRICE AGREEMENT, WE WOULD HAVE TO EXERCISE OUR RIGHTS ON OUR OWN".

4. IN RESPONSE ANOTHER QUESTION, YAMANI DENIED SAYING, AS HE HAS BEEN QUOTED RECENTLY, THAT SAUDI ARABIA DID NOT CONSIDER EXISTING PARTICIPATION AGREEMENTS IN SAUDI ARABIA AND OTHER GULF COUNTRIES AS FINAL, ADDING "THIS DOES NOT MEAN TO IMPLY THAT WE WILL STICK TO THE AGREEMENT OR THAT WE ARE PLANNING TO CHANGE IT". (HERE MEES COMMENTED THAT YAMANI AND ARAMCO PARTNERS HAVE BEEN "EXCHANGING VIEWS" ON PARTICIPATION MATTERS IN RECENT WEEKS, WITH NEXT MEETING SCHEDULED FOR SEPTEMBER 13 IN NEW YORK. MEES THINKS FUTURE NEGOTIATIONS POSSIBLE).

5. FINALLY, YAMANI REITERATED THAT SAUDI POLICY FOR PARTICIPATION CRUDE SALES REMAINS ONE OF DEALING ONLY WITH "BUYER-USERS". HE WARNED THAT PROSPECTIVE BUYERS WHO DEAL WITH "SELF-STYLED INTERMEDIARIES WILL DESTROY THEIR PROSPECTS OF OBTAINING SAUDI PARTICIPATION UNCLASSIFIED

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CRUDE THROUGH AUTHORIZED CHANNELS".
BUFFUM

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